

**Luri Gold Limited**  
(A Development Stage Company)

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
OCTOBER 31, 2010 AND 2009**

(Stated in Canadian Dollars)



**AUDITORS' REPORT**

To the Shareholders of  
**Luri Gold Limited**  
**(A Development Stage Company)**

We have audited the consolidated balance sheets of Luri Gold Limited (A Development Stage Company) as at October 31, 2010 and 2009 and the consolidated statements of shareholders' equity, operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**McGOVERN, HURLEY, CUNNINGHAM, LLP**

**Chartered Accountants**  
**Licensed Public Accountants**

TORONTO, Canada  
January 11, 2011

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**Luri Gold Limited**  
 (A Development Stage Company)  
**Consolidated Balance Sheets**  
 (expressed in Canadian dollars)

As at October 31,	2010	2009
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and equivalents	3,559,009	1,330,004
Deferred finance costs (Note 9(b))	-	261,026
Amounts receivable	161,471	100,438
Advances and prepaid expenses	15,234	39,522
	<u>3,735,714</u>	<u>1,730,990</u>
<b>Mineral Properties</b> (Note 7)	12,623,314	8,484,709
<b>Equipment</b> (Note 8)	52,496	58,068
	<u>16,411,524</u>	<u>10,273,767</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	301,454	679,838
<b>Future income tax liabilities</b> (Note 16)	335,000	-
	<u>636,454</u>	<u>679,838</u>
<b>Commitments and Contingencies</b> (Note 7 and 13)		
<b>Going Concern</b> (Note 2)		
<b>SHAREHOLDERS' EQUITY</b>		
<b>Common Shares</b> (Note 9)	16,934,233	10,158,418
<b>Share Purchase Warrants</b> (Note 10)	-	384,400
<b>Contributed Surplus</b> (Note 12)	4,496,940	3,909,540
<b>Currency Translation Adjustments</b>	39,419	39,419
<b>Deficit</b>	(5,695,522)	(4,897,848)
	<u>15,775,070</u>	<u>9,593,929</u>
	<u>16,411,524</u>	<u>10,273,767</u>

**APPROVED ON BEHALF OF THE BOARD**

signed "Michael Sperinck"  
 Michael Sperinck, Director

signed "Peter Tanham"  
 Peter Tanham, Director

(The accompanying notes are an integral part of these consolidated financial statements.)

**Luir Gold Limited**  
**(A Development Stage Company)**  
**Consolidated Statement of Shareholders' Equity**  
*(expressed in Canadian dollars)*

	Common Shares #	Common Shares \$	Contributed Surplus \$	Share Purchase Warrants \$	Deficit accumulated during the development stage \$	Currency Translation Adjustments \$	Shareholders' equity \$
Balance – October 31, 2008	49,664,405	7,566,908	3,087,187	1,206,753	(4,483,074)	39,419	7,417,193
Valuation of warrants expired (Note 10)	-	-	822,353	(822,353)	-	-	-
Shares issued on private placement, net of issuance costs of \$35,590 (Note 9(a))	21,892,500	2,591,510	-	-	-	-	2,591,510
Net loss for the year	-	-	-	-	(414,774)	-	(414,774)
<b>Balance – October 31, 2009</b>	<b>71,556,905</b>	<b>10,158,418</b>	<b>3,909,540</b>	<b>384,400</b>	<b>(4,897,848)</b>	<b>39,419</b>	<b>9,593,929</b>
Shares issued on Australian Fundraising net of issuance costs of \$709,189 (Note 9(b))	40,000,000	6,930,815	-	-	-	-	6,930,815
Value of agents options granted on Australian Fundraising	-	(155,000)	155,000	-	-	-	-
Stock option compensation expense	-	-	48,000	-	-	-	48,000
Valuation of warrants expired (Note 10)	-	-	384,400	(384,400)	-	-	-
Net loss for the year	-	-	-	-	(797,674)	-	(797,674)
<b>Balance – October 31, 2010</b>	<b>111,556,905</b>	<b>16,934,233</b>	<b>4,496,940</b>	<b>-</b>	<b>(5,695,522)</b>	<b>39,419</b>	<b>15,775,070</b>

*(The accompanying notes are an integral part of these consolidated financial statements.)*

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# Luri Gold Limited

(A Development Stage Company)

## Consolidated Statements of Operations, Comprehensive Loss and Deficit

(expressed in Canadian dollars)

For the years ended October 31	2010 \$	2009 \$
<b>Expenses</b>		
Management fees	303,051	221,452
Investor relations	285,682	99,217
Professional fees	202,825	97,293
Directors fees (Note 14)	123,137	10,387
Transfer agent and filing fees	100,853	24,761
Travel and accommodation	95,493	44,519
Office and administration	85,207	81,626
Stock-based compensation (Note 11)	48,000	-
Consulting and advisory fees	42,814	-
Insurance	20,911	16,049
Amortization	11,824	13,469
	<u>1,319,797</u>	<u>608,773</u>
<b>Loss for the year before the undernoted</b>	<u>(1,319,797)</u>	<u>(608,773)</u>
Interest income	217,961	6,884
Foreign exchange gain	48,162	1,115
	<u>(1,053,674)</u>	<u>(600,774)</u>
<b>Net loss for the year before income taxes</b>	<u>(1,053,674)</u>	<u>(600,774)</u>
Future income taxes (Note 16(a))	256,000	186,000
	<u>(797,674)</u>	<u>(414,774)</u>
<b>Net loss and comprehensive loss for the year</b>	<u>(797,674)</u>	<u>(414,774)</u>
<b>Deficit - beginning of year</b>	<u>(4,897,848)</u>	<u>(4,483,074)</u>
<b>Deficit - end of year</b>	<u>(5,695,522)</u>	<u>(4,897,848)</u>
<b>Loss per share - basic and diluted</b>	<b>(0.01)</b>	<b>(0.01)</b>
<b>Weighted average number of common shares - Basic and diluted</b>	<b>109,693,891</b>	<b>56,050,841</b>

(The accompanying notes are an integral part of these consolidated financial statements.)

**Luri Gold Limited**  
(A Development Stage Company)  
**Consolidated Statements of Cash Flows**  
*(expressed in Canadian dollars)*

For the years ended October 31	2010 \$	2009 \$
<b>Cash and cash equivalents provided by (used in)</b>		
<b>Operating Activities</b>		
Net loss for the year	(797,674)	(414,774)
Adjustments for non-cash items:		
Amortization	11,824	13,469
Stock-based compensation (Note 11)	48,000	-
Future income taxes	(256,000)	(186,000)
Changes in non-cash working capital items:		
Amounts receivable	(61,033)	(78,495)
Advances and prepaid expenses	24,288	(11,751)
Accounts payable and accrued liabilities	98,295	683,612
<b>Net cash used in Operating Activities</b>	<b>(932,300)</b>	<b>6,061</b>
<b>Financing Activities</b>		
Issuance of common shares and warrants, for cash	7,640,004	2,627,100
Deferred financing costs	(162,149)	(98,877)
Share issue costs	(448,163)	(35,590)
<b>Net cash provided from Financing Activities</b>	<b>7,029,692</b>	<b>2,492,633</b>
<b>Investing Activities</b>		
Expenditures on mineral properties	(3,862,135)	(1,907,270)
Acquisition of property and equipment	(6,252)	(4,054)
<b>Net cash used in Investing Activities</b>	<b>(3,868,387)</b>	<b>(1,911,324)</b>
<b>Change in cash and equivalents</b>	<b>2,229,005</b>	<b>587,370</b>
<b>Cash and equivalents - beginning of year</b>	<b>1,330,004</b>	<b>742,634</b>
<b>Cash and equivalents - end of year</b>	<b>3,559,009</b>	<b>1,330,004</b>
<b>Cash and equivalents consists of:</b>		
Cash	380,355	628,986
Equivalents	3,178,654	701,018
	<b>3,559,009</b>	<b>1,330,004</b>
<b>Supplemental information</b>		
Interest and taxes paid	-	-
Change in accrued exploration expenditures	(314,531)	317,240
Change in accrued deferred financing costs	(162,149)	162,149
Agent options	155,000	-
Future income tax effect on mineral properties	591,000	186,000

*(The accompanying notes are an integral part of these consolidated financial statements.)*

# Luir Gold Limited

(A Development Stage Company)

## Notes to Consolidated Financial Statements

October 31, 2010 and 2009

(expressed in Canadian dollars)

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### 1. Nature of Operations and Basis of Presentation

Luir Gold Limited (the "Company") was incorporated on February 3, 2004 in the Province of British Columbia under the British Columbia Business Corporations Act and is currently engaged in the acquisition, exploration and development of mineral properties. To date, the Company has not earned revenues and is considered to be in the development stage, as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11.

The Company is in the process of exploring its mineral property interests in Zambia, Continent of Africa, and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. The Company's continuing operations, the underlying value and the recoverability of the amounts shown for mineral properties are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its mineral property interests and on future profitable production or proceeds from the disposition of the mineral property interests. The business of exploring for and mining of minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, other land claims and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions and political uncertainty.

### 2. Going Concern

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Accordingly, these consolidated financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

As at October 31, 2010, the Company had no source of operating cash flow and has an accumulated deficit of \$5,695,522 (October 31, 2009 - \$4,897,848). Operations for the year ended October 31, 2010 have been funded primarily from the issuance of common shares. The Company's ability to meet its obligations and continue as a going concern is dependent upon its ability to obtain additional financing, the discovery, development or sale of mining reserves and the achievement of profitable operations. The Company is planning to meet its future expenditures and obligations by raising funds through public offerings, private placements or by farm-outs of its mineral property interests. It is not possible to predict whether these efforts will be successful or whether the Company will attain profitable levels of operation.

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Continued...

# Luri Gold Limited

(A Development Stage Company)

## Notes to Consolidated Financial Statements

October 31, 2010 and 2009

(expressed in Canadian dollars)

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### 3. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year, except as disclosed. Outlined below are those policies considered particularly significant:

#### (a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company transactions and balances have been eliminated.

#### (b) Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. The Company regularly reviews the estimates and assumptions that affect the consolidated financial statements and actual results could differ from those estimates. Significant areas where management judgment is applied are asset valuations, the allocation of proceeds on the purchase or sale of assets, the recoverability of exploration and development expenditures on mineral properties, the valuation of stock-based compensation, warrants, tax accounts, asset retirement obligations and contingent liabilities. The valuation of mineral properties is subject to various risks and uncertainties related to ownership rights. In the opinion of management, all adjustments considered necessary for fair presentation of the results for the periods presented are reflected in the consolidated financial statements. Actual results could differ from those estimated.

#### (c) Mineral Properties

Direct property acquisition costs, holding costs, field exploration and field supervisory costs relating to specific properties are deferred until the properties to which they relate are brought into production, at which time they will be amortized on a unit of production basis, or until the properties are sold, abandoned or allowed to lapse, at which time they will be written off.

Costs include the cash consideration paid and the fair market value of the shares as they are issued, if any, on the acquisition of exploration properties. Properties acquired under option agreements whereby payments are made at the sole discretion of the Company are recorded in the accounts at such time as the payments are made. The proceeds from options granted are applied to the cost of the related property and any excess is included in income for the year. Costs incurred for administration and general exploration that are not project specific, are charged to operations.

The recorded amounts for acquisition costs of properties and their related capitalized exploration and development expenses represent actual expenditures incurred and are not intended to reflect present or future values. The Company, however, reviews the capitalized costs on its properties on a periodic basis and will recognize an impairment in value based upon the stage of exploration and/or development, work programs proposed, current exploration results and upon management's assessment of the future probability of profitable revenues from each property, or from the sale of the relevant property. Management's assessment of a property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Continued...

**Luri Gold Limited**  
(A Development Stage Company)  
**Notes to Consolidated Financial Statements**  
**October 31, 2010 and 2009**  
*(expressed in Canadian dollars)*

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**3. Significant Accounting Policies (Continued)**

(d) **Foreign Currency Translation**

The Canadian dollar is the functional currency of the Company. The Company considers its Zambian operations to be integrated operations. As such, monetary assets and liabilities of the Company's foreign operations denominated in a currency other than the Canadian dollar are translated into Canadian dollars at the exchange rate prevailing as at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenue and expenses are translated at the average exchange rates prevailing during the year, with the exception of depreciation and amortization, which are translated at historical rates. Exchange gains and losses on translation are included in the consolidated statements of operations.

(e) **Cash and Equivalents**

Cash and equivalents include cash on account and highly liquid investments with a term to maturity of three months or less at the date of purchase.

(f) **Equipment**

Equipment is carried at cost less accumulated amortization. Amortization is provided on a diminishing value basis over the estimated useful live at the following annual rates:

Equipment	15.0%
Motor Vehicles	25.0%
Office Furniture and Equipment	10.0% or 30.0%

(g) **Asset Retirement Obligations**

The Company's mineral exploration and development activities are subject to various Zambian laws and regulations regarding the protection of the environment. As a result of these, the Company is expected to incur expenses from time to time to discharge its obligations under these laws and regulations.

Reclamation and closure costs are estimated based on the Company's interpretation of current regulatory and operating licence requirements and measured at fair value. Fair value is determined based on the net present value of future cash expenditures expected upon reclamation and closure and subsequent annual recognition of an accretion amount on the discounted liability. Reclamation and closure costs are capitalized as property development costs and amortized over the life of the mine on a unit-of-production basis. Management is not aware of any legal obligations relating to the reclamation of its mineral properties.

(h) **Income Taxes**

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

Continued...

# Luir Gold Limited

(A Development Stage Company)

## Notes to Consolidated Financial Statements

October 31, 2010 and 2009

(expressed in Canadian dollars)

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### 3. Significant Accounting Policies (Continued)

#### i) Stock-Based Compensation

Stock-based payments are accounted for using a fair value-based method of accounting. The fair value of each stock option is accounted for in operations, over the vesting period thereof, and the related credit is included in contributed surplus. If and when the stock options are ultimately exercised and are issued, the applicable units of contributed surplus will be transferred to common shares. The fair value is calculated based on the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable.

Common shares issued for non-monetary consideration are recorded at their fair market value based on the trading price of the Company's shares on the TSX Venture Exchange.

#### (j) Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing the income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings (loss) per share, according to the treasury stock method, assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings (loss) per share calculation. The diluted earnings (loss) per share calculation assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings (loss) per share. Stock options and share purchase warrants outstanding were not included in the computation of diluted earnings (loss) per share as their inclusion would be anti-dilutive.

#### (k) Financial Instruments

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet or until impairment is assessed as other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net loss for the period, unless the instrument is a cash flow hedge and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive income.

Continued...

**Luri Gold Limited**  
(A Development Stage Company)  
**Notes to Consolidated Financial Statements**  
**October 31, 2010 and 2009**  
*(expressed in Canadian dollars)*

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**3. Significant Accounting Policies (Continued)**

(l) **Comprehensive Income (Loss)**

Comprehensive income (loss), composed of net income and other comprehensive income (loss), is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income (loss) for the Company includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive income (loss) are disclosed in the statement of operations and comprehensive income (loss). Cumulative changes in other comprehensive income (loss) are included in accumulated other comprehensive income ("AOCI") which is presented as a new category in shareholders' equity. The Company's AOCI balance has been presented as currency translation adjustments on the consolidated balance sheets.

(m) **Comparative Figures**

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

(n) **New Accounting Policies**

**Fair value hierarchy and liquidity risk disclosure**

The Canadian Accounting Standards Board issued an amendment to CICA Section 3862, "Financial Instruments Disclosures" in an effort to make Section 3862 consistent with IFRS Section 7 - Disclosures ("IFRS 7"). The purpose was to establish a framework for measuring fair value under Canadian GAAP and expand disclosures about fair value measurements. To make the disclosures an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The adoption of this new standard resulted in additional disclosures in the notes to the consolidated financial statements.

**4. Future Change in Accounting Standards**

**International Financial Reporting Standards (IFRS)**

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for public companies in Canada (IFRS will replace Canadian GAAP for public companies). The official changeover date will apply for interim and annual financial statements relating to the Company's fiscal year beginning on November 1, 2011. The Company is currently assessing the impact of the implementation of IFRS and developing a changeover plan. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. The Company has begun assessing the adoption of IFRS and is developing a changeover plan; however, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Continued...

**Luri Gold Limited**  
**(A Development Stage Company)**  
**Notes to Consolidated Financial Statements**  
**October 31, 2010 and 2009**  
*(expressed in Canadian dollars)*

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**4. Future Change in Accounting Standards (Continued)**

**Business combinations**

CICA Handbook Section 1582 "Business Combinations", replaces Section 1581 - "Business Combinations" and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 - Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company expects to adopt this standard on November 1, 2011.

**Consolidations and non-controlling interests**

CICA Handbook Sections 1601 "Consolidations" and Section 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 - "Consolidated and Separate Financial Statements", for non-controlling interests. The Company expects to adopt these standard on November 1, 2011.

**5. Capital Management**

The Company defines the capital that it manages as its shareholders' equity. As at October 31, 2010 total shareholders' equity (managed capital) was \$15,775,070 (2009 - \$9,593,929). As an exploration and development stage company, the Company manages its capital structure, and makes adjustments to it, based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage and as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay the administrative costs, the Company will spend its existing working capital and will attempt to raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the periods ended 2010 and 2009. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

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**Luri Gold Limited**  
**(A Development Stage Company)**  
**Notes to Consolidated Financial Statements**  
**October 31, 2010 and 2009**  
*(expressed in Canadian dollars)*

**6. Financial Risk Factors**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures from the previous period.

**Credit risk**

The Company's credit risk is primarily attributable to cash and equivalents in current assets. The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of term deposits, which have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Amount receivable consist of goods and services tax due from the Federal Government of Canada, VAT due from the Government of Zambia and receivables from unrelated companies. Management believes that the credit risk concentration with respect to financial instruments is remote.

**Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at October 31, 2010, the Company has a cash and equivalents balance of \$3,559,009 (October 31, 2009 - \$1,330,004) to settle current liabilities of \$301,454 (October 31, 2009 - \$679,838). All of the Company's financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

**Market risk**

**(a) Interest rate risk**

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

**(b) Foreign Currency risk**

The Company's functional currency is the Canadian dollar as major transactions are in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in Zambia on a cash call basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada or its Australian dollar bank accounts held in Australia. The Company also incurs certain operating expenses in Australian dollars. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not currently hedge its foreign exchange risk.

	Cash and equivalents \$	Amounts receivable \$	Accounts payable \$
Canada	254,543	6,663	100,631
Australia	3,296,317	11,306	15,429
Zambia	8,149	143,502	185,394
	<b>3,559,009</b>	<b>161,471</b>	<b>301,454</b>

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(A Development Stage Company)  
**Notes to Consolidated Financial Statements**  
**October 31, 2010 and 2009**  
*(expressed in Canadian dollars)*

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**6. Financial Risk Factors (continued)**

**Market risk (continued)**

**(a) Price risk**

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

**Fair Values**

Canadian GAAP requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying value of cash and equivalents, amounts receivable and accounts payable and accrued liabilities approximate fair value because of the limited term of these instruments. At October 31, 2010, the Company's financial instruments that are carried at fair value, consisting of cash equivalents have been classified as follows within the fair value hierarchy: Level 1 - \$154,043; Level 2 - \$3,024,611.

**Sensitivity analysis**

The Company has designated its cash and equivalents as held-for-trading, which are measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over the next three months:

- Cash equivalents include deposits at call, which are at variable rates. Sensitivity to a 1% change in rates would have a corresponding impact on net loss of approximately \$30,000, based on current cash equivalents balances.
- A 10% increase in foreign exchange rates relative to the Canadian dollar would have impacted net loss for the year by approximately \$330,000.
- Price risk is remote since the Company is not a producing entity.

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**7. Mineral Properties**

The cumulative costs of the Company's interest in its Zambian mineral properties are as follows:

	Year ended October 31 2010 \$	Year ended October 31 2009 \$
Acquisition costs		
Opening balance	78,296	78,296
Incurred in the period	-	-
Closing balance	<u>78,296</u>	<u>78,296</u>
Drilling, Sampling and assays		
Opening balance	5,342,829	4,916,408
Incurred in the period	2,303,205	426,421
Closing balance	<u>7,646,034</u>	<u>5,342,829</u>
Labour		
Opening balance	565,991	400,800
Incurred in the period	280,017	165,191
Closing balance	<u>846,008</u>	<u>565,991</u>
Geological and reporting		
Opening balance	1,116,831	203,104
Incurred in the period	472,905	913,727
Closing balance	<u>1,589,736</u>	<u>1,116,831</u>
Project management fees		
Opening balance	798,195	667,960
Incurred in the period	884,641	130,235
Closing balance	<u>1,682,836</u>	<u>798,195</u>
Other		
Opening balance	582,567	442,111
Incurred in the period	197,837	140,456
Closing balance	<u>780,404</u>	<u>582,567</u>
Total	<u><u>12,623,314</u></u>	<u><u>8,484,709</u></u>

**Luir Hill Project, Zambia**

Mineral properties consist of the Company's interest in two Prospecting Licenses (PL173 and PL209) and a Mining License (LML48) in Zambia, Continent of Africa. These three contiguous tenements together constitute the Company's "Luir Hill Project", which the Company is exploring for gold, copper-gold and iron deposits.

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**7. Mineral Properties (continued)**

**Luri Hill Project, Zambia (continued)**

In May 2010, the Zambian Department of Mines and Minerals Development ("Mines Department") advised the Company that it was in default of its mining license LML48. The Company believes there is no legal basis for the cancellation in accordance with the Mines and Minerals Development Act 2008 (the "Act"). The Company provided the Mines Department with documentation supporting its continued tenure, however, this response was rejected. A subsequent appeal to the Minister of the Mines Department was also rejected. The Company subsequently appealed the cancellation in the High Court of Zambia. The High Court of Zambia issued a stay against the cancellation of LML48 until the full appeal process can be completed.

No impairment has been recorded as at October 31, 2010 as a result of this analysis. The great majority of funds capitalized as mineral properties relate to LML48. The final outcome of the appeal process remains uncertain and may result in the impairment or loss of all or part of the Company's investment, which could be material.

**8. Equipment**

	October 31, 2010			October 31, 2009		
	Cost \$	Accumulated Amortization \$	Net Book Value \$	Cost \$	Accumulated Amortization \$	Net Book Value \$
Equipment	12,573	5,303	7,270	12,573	4,018	8,555
Motor Vehicles	69,713	42,976	26,737	69,713	35,214	34,499
Office Furniture and Equipment	27,085	8,596	18,489	20,833	5,819	15,014
	<b>109,371</b>	<b>56,875</b>	<b>52,496</b>	103,119	45,051	58,068

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**9. Share Capital**

Authorized:  
Unlimited number of common shares without par value.  
Issued:

Issued	Number of Shares #	Amount \$
<b>Balance, October 31, 2008</b>	<b>49,664,405</b>	<b>7,566,908</b>
Funds received for shares, net of offering costs (a)	21,892,500	2,591,510
<b>Balance, October 31, 2009</b>	<b>71,556,905</b>	<b>10,158,418</b>
Funds received for shares, net of offering costs (b)	40,000,000	6,775,815
<b>Balance, October 31, 2010</b>	<b>111,556,905</b>	<b>16,934,233</b>

(a) Private Placement

In July and August 2009, the Company completed a private placement for 21,892,500 shares at \$0.12 per share. After taking into account the cost of the offering of \$35,590, the Company received \$2,591,510.

(b) Australian listing and fundraising

In November 2009, the Company completed an Australian Securities Exchange (“ASX”) listing and fundraising of A\$8,000,000 (\$7,640,004) through the issuance of 40,000,000 shares at A\$0.20 (approximately \$0.192) each. The Company incurred finance costs of \$709,189 related to this fundraising, of which \$261,026 was accrued as deferred finance costs at October 31, 2009. The Company also granted agent options with a fair value of \$155,000 in relation to the fundraising. (Note 11)

**10. Share Purchase Warrants**

The following summarizes the share purchase warrant activity during 2009 and 2010:

	Number of Warrants #	Weighed Average Exercise Price \$ per share	Estimated Grant Date Fair Value \$
Balance, October 31, 2008	8,882,353	0.59	1,206,753
Expired	(5,882,353)	0.51	(822,353)
Balance, October 31, 2009	3,000,000	0.75	384,400
Expired	(3,000,000)	0.75	(384,400)
Balance, October 31, 2010	-	-	-

There are no share purchase warrants outstanding at October 31, 2010.

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**11. Stock-Based Compensation**

The Company may grant incentive stock options to its officers, directors, employees and consultants, for the purchase of up to 10% of the outstanding number of common shares of the Company. Stock options are non-transferable. The Board of Directors of the Company determines the exercise price, but it may be no less than the current market price at the time of the grant. Options have a maximum term of five years and terminate 90 days after the termination of employment or other contracting arrangement of the option holder. Vesting of options may be at the time of granting of the option or over a period as set out in each option agreement. Once approved and vested, stock options are exercisable at any time until expiry or termination as above. The Company records the stock-based compensation expense over the vesting term of the options granted.

On November 13, 2009, 1,000,000 options were issued as part of the Australian fundraising. The options are exercisable for a period of thirty months at a price of A\$0.20 per common share. The stock options vested immediately and \$155,000 was recorded as offering costs against the proceeds of the financing. The fair value of options was estimated using the Black-Scholes option pricing model assuming a risk-free interest rate of 1.39% per annum, expected volatility of 100%, expected dividend rate of \$nil and an expected life of 2.5 years. The exercise price of all share purchase options granted was greater than or equal to the market price at the grant date.

On April 1, 2010, 300,000 options were issued to an employee as part of his compensation. The options are exercisable for a period of sixty months at a price of 100,000 options at A\$0.45, A\$0.65 and A\$0.85 per common share. The stock options vested immediately and \$48,000 was recorded as a compensation expense and added to contributed surplus in shareholders' equity on the balance sheet. The fair value of options was estimated using the Black-Scholes option pricing model assuming a risk-free interest rate of 3.04% per annum, expected volatility of 100%, expected dividend rate of \$nil and an expected life of 5 years. The exercise price of all share purchase options granted was greater than or equal to the market price at the grant date.

Option pricing models require the input of highly subjective assumptions. Changes in the assumptions can materially affect the fair value estimate, and therefore, the existing model does not necessarily provide a reliable measure of the fair value of the Company's options at the date of grant.

The following summarizes the stock option activity during 2009 and 2010:

	October 31, 2010		October 31, 2009	
	Number of Options #	Weighted average exercise price \$ per share	Number of options #	Weighted average exercise price \$ per share
Balance, beginning of the period	3,803,500	0.45	3,908,500	0.45
Granted	1,300,000	0.29	-	-
Expired	(1,400,000)	(0.41)	(105,000)	0.10
Balance, end of the period	3,703,500	0.42	3,803,500	0.46

The weighted average grant date fair value of options granted during 2010 was \$0.16 (2009 - nil).

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### 11. Stock-Based Compensation (Continued)

Summary of stock options outstanding as at October 31, 2010:

Expiry Date	Options Outstanding #	Options Exercisable #	Exercise Price \$	Estimated Grant Date Fair Value \$
June 23, 2011	2,207,000	2,207,000	0.50	653,394
March 13, 2012	146,500	146,500	0.40	43,950
March 7, 2013	50,000	50,000	0.40	14,500
May 13, 2012	1,000,000	1,000,000	A0.20 (0.20)	155,000
April 1, 2015	100,000	100,000	A0.45 (0.45)	17,000
April 1, 2015	100,000	100,000	A0.60 (0.60)	16,000
April 1, 2015	100,000	100,000	A0.85 (0.85)	15,000
	3,703,500	3,703,500		914,844

### 12. Contributed Surplus

The following summarizes the contributed surplus activity during 2009 and 2010:

	October 31, 2010 \$	October 31 2009 \$
Balance, beginning of the period	3,909,540	3,087,187
Value of stock options granted	203,000	-
Value of expired warrants	384,400	822,353
<b>Balance, end of the year</b>	<b>4,341,940</b>	<b>3,909,540</b>

### 13. Commitments and Contingencies

Under the terms of non-cancellable operating leases, the Company is committed to rental payments of \$19,920 due within one year.

The Company is party to certain management contracts that expire in October 2011. Commitments under these contracts approximate \$320,000 due within one year.

The Company's mining and exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

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**14. Related Party Transactions**

Related party transactions occurred in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

At October 31, 2010, the Company had arrangements with a number of contractors to provide most of the administrative, accounting, management, and technical services required. Certain directors and significant shareholders provided management and consulting services to the Company.

Commencing November 1, 2009 the Company's President and CEO became a full time employee of the Company. In the year ended October 31, 2010 he was paid \$147,462 for his services (year ended October 31, 2009 the Company paid Global Mining Services Pty Ltd \$138,096 for the services of the President and CEO).

Westland Corporate Pty Ltd, a private corporation, was paid \$71,025 of management fees in the year ended October 31, 2010 for the services of the Company's Chief Financial Officer (year ended October 31, 2009 - \$46,154). During 2010, a shareholder of this corporation became a director of the Company.

The Company commenced paying directors fees to the non-executive directors of the Company on October 1, 2009. The monthly fee for the Chairman is A\$3,333 and for other directors is A\$2,500. For the year ending October 31, 2010 the Company paid directors fees of \$123,137. (year ended October 31, 2009 - \$10,387).

In addition to directors fees, the Chairman of the Company was paid consultancy fees of \$31,380 through his private company, Wildville Enterprises Pty Ltd, relating to the tenure issue on the Company's license LML48 (see Note 7).

A corporation that has a director in common with the Company subscribed for 9,000,000 common shares of the fundraising described in Note 9(b).

**15. Segmented Information**

The Company considers its business to consist of three geographical segments, Zambia, the corporate head offices in Canada and Australia.

Geographic segmentation of the Company's assets is as follows:

	<b>October 31 2010 \$</b>	<b>October 31 2009 \$</b>
Canada	<b>281,674</b>	1,451,309
Australia	<b>3,296,316</b>	-
Zambia	<b>12,833,534</b>	8,822,458
	<b>16,411,524</b>	10,273,767

All of the Company's mineral properties and equipment are located in Zambia.

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**16. Income Taxes**

**(a) Provision for Income Taxes**

Major items causing the Company's income tax rate to differ from the Canadian statutory rate of approximately 31% (2009 – 33%) were as follows:

	<u>2010</u> \$	<u>2009</u> \$
Loss before income taxes	<u>1,053,674</u>	<u>600,774</u>
Expected income tax benefit based on statutory rate	<b>327,000</b>	199,000
Adjustments to benefit resulting from:		
Share issue costs	<b>177,000</b>	9,000
Stock-based compensation	<b>(12,000)</b>	-
Differences in income tax rates	<b>(63,000)</b>	(49,000)
Change in income tax rates	-	(103,000)
Non-deductible items	-	-
Other	<b>218,000</b>	(35,000)
Change in valuation allowance	<b>(391,000)</b>	165,000
Provision for income taxes	<u><b>256,000</b></u>	<u>186,000</u>

**(b) Future Income Tax Balances**

The tax effects of temporary differences that give rise to future income tax assets and liabilities in Canada approximate the following:

	<u>2010</u> \$	<u>2009</u> \$
Future income tax assets (liabilities)		
Non-capital losses	<b>4,451,000</b>	3,676,000
Mineral properties	<b>(3,787,000)</b>	(2,970,000)
Fixed assets	<b>(13,000)</b>	(15,000)
Share issue costs	<b>190,000</b>	94,000
Valuation allowance	<b>(1,176,000)</b>	(785,000)
Future income tax liabilities	<u><b>(335,000)</b></u>	<u>-</u>

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**16. Income Taxes (Continued)**

**(c) Income Tax Loss Carry-Forwards**

The following table summarizes the non-capital losses of the Company in Canada and Zambia, along with their expiry dates, which may be used, under certain circumstances, to reduce taxable income of future years:

<u>Expiry Date</u>	<u>Canada</u> \$	<u>Zambia</u> \$
2011	-	771,000
2012	-	309,000
2013	-	2,834,000
2014	19,000	2,099,000
2015	107,000	1,208,000
2026	493,000	3,024,000
2027	570,000	-
2028	862,000	-
2029	704,000	-
2030	1,188,000	-
	<u>3,943,000</u>	<u>10,245,000</u>

The loss carry-forwards in Zambia of \$10,245,000 have been converted based on a Kwacha balance of approximately K\$46,100,000,000.